

Economics 102 — Summer II 2014

# Globalization

August 4, 2014

Instructor:	Marc-Andreas Muendler
Office:	Economics 312
Office hours:	Thu 5:00p-6:00p
Phone:	(858) 534-4799
E-mail:	muendler@ucsd.edu
Classroom:	Sequoiah Hall 148
Class Time:	TueThu 11:00a-1:50p
Class Web Page:	<a href="http://econ.ucsd.edu/muendler/teach/14x/102">econ.ucsd.edu/muendler/teach/14x/102</a>
Section ID	813066
Teaching Assistant:	Deborah Anne Watkins
E-mail:	dawatkins@ucsd.edu
Office:	Sequoiah 224
Office hours:	Tue 3:00p-3:50p

## 1 Course Objectives

This course on the economics of globalization presents theories of global economic integration, each grounded in the principle of comparative advantage. Lectures investigate patterns of trade when trade is balanced and capital flows when trade is not balanced, with a focus on trade in goods, services and sovereign debt securities. The course aims to assess the consequences of economic globalization and evaluate economic policies for industry location, incomes, welfare and economic growth.

The course is designed as a lower-level class that presents foundations for both *International Trade* (Economics 101) and *International Monetary Relations* (Economics 103). The first half of the course shares important topics with Econ 101, emphasizing the essentials of comparative advantage for specialization in economics activities and the trade in goods. The second half lays real-side foundations for Econ 103, emphasizing the idea of comparative advantage over time for lending and borrowing in international capital markets.

## 2 Prerequisites

Econ 1 and 2 or 3, or 100B.

## 3 Readings

Lecture notes become available online at [econ.ucsd.edu/muendler/teach/14x/102](http://econ.ucsd.edu/muendler/teach/14x/102) before each class.

**Forthcoming textbook:** Muendler (2014)/ch. 1-4, 6 and 14

Chapters of the forthcoming textbook Muendler (2014)/ch. 1-4, 6 and 14 are available for download from the class web page (see link above) prior to the respective lectures. (Further textbook chapters may become available over the course of the quarter.) The chapters are zipped and password protected. The password is given out on the first day in class.

## 4 Problem Sets

There will be two problem sets, due on scheduled dates prior to the two exams. You are encouraged to work on the problems with your classmates. Your teaching assistant will hold sections over the course of the summer session to help you solve the problems, and you can receive assistance during any of the scheduled office hours. The problem set questions are written in the style of review questions that span material across individual lectures.

Your solutions to the problem sets will be checked by question (check/half check/no check) and your performance on them will be a part of the final grade. Correct answers count five points per question, partly correct answers 2.5 points and incorrect answers zero.

Your teaching assistant Deborah Watkins will offer two problem set review sections to help you solve the problems. Problem sets have to be handed in on paper *before* 11:00a on the due date. You can drop the problem sets off prior to the start of lecture, at Deborah Watkins's office (SH 224), or in Professor Marc Muendler's mailbox.

## 5 Assessment

There will be one midterm exam and a final exam. The midterm exam will take 90 minutes and the final exam will take 120 minutes (no extra time). The final exam is cumulative. The midterm exam contains nine 10-minute questions, the final exam contains twelve 10-minute questions. Problem sets have to be handed in *before* 11:00a on the due date to be considered.

Your final raw score will be your total points from the three exams and the three problem sets:

Problem sets:	90 points (45+45 points)	8/19, 9/4
Midterm (90 minutes):	90 points	8/21
Final (120 minutes):	120 points	9/6
<i>Total:</i>	300 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego. You can find this grade distribution at [econ.ucsd.edu/muendler/teach/14x/102](http://econ.ucsd.edu/muendler/teach/14x/102). Therefore the difficulty or simplicity of problem sets and exams will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. Grades of *D* or *F* will not depend on the curve but on a minimal performance standard.

There will be review sections to help you prepare for the exams.

Participation in exams is mandatory and excused only under the conditions that also permit an incomplete grade: course work must be of non-failing quality and absence must be for a cause beyond the student's control. In particular, the incidence of other exams on the same day is no reason for an excuse from the exam. Under its current rules, Student Health Services offers access to medical excuses that document illness only under extreme circumstances (severe, prolonged illness that necessitates dropping a class or obtaining specific accommodations for class/lab participation, test taking or make-up). To be excused from the midterm because of illness, the student must inform the instructor *before* the midterm exam. To be excused from the final exam, however, the illness must be sufficiently severe so that Student Health Services or another health-care provider does document the illness.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Principles of academic honesty are strictly applied.

Appeals of scores on exams must be submitted in writing, along with all prior exams and problem sets. Following the appeal, all questions on all exams will be reconsidered. An appeal may be denied if the exam was written with a pencil.

## 6 Class Schedule

1. **Tue, August 5:** Globalization and the Principle of Comparative Advantage  
(Muendler 2014/ch. 1 and 2)  
PROBLEM SET 1 OUT

### I. International Product Markets

2. **Tue, August 5:** Comparative Advantage, Trade Flows and the Gains from Trade  
(Muendler 2014/ch. 2)
3. **Thu, August 7:** Competitiveness, Comparative Advantage, and the Terms of Trade  
(Muendler 2014/ch. 3, sections 3.1 and 3.2)
4. **Thu, August 7:** Trade and the Distribution of Incomes  
(Muendler 2014/ch. 4)
5. **Tue, August 12:** Offshoring and the Distribution of Incomes  
(Muendler 2014/ch. 6, sections 6.1 and 6.2)
6. **Tue, August 12:** Trade in Primary Products and the Distribution of Gains from Trade  
(Muendler 2014/ch. 6, sections 6.1, 6.2 and 6.4)
7. **Thu, August 14:** Instruments of Trade Policy  
(Krugman, Obstfeld, and Melitz 2011/ch. 9)
8. **Thu, August 14:** Costs and Benefits of Trade Restrictions  
(Muendler 2014/ch. 7)

**Mon, August 18, time TBA:** *Problem set 1 review section*

9. **Tue, August 19:** Cases for Trade Interventions  
(Muendler 2014/ch. 7)  
PROBLEM SET 1 DUE
10. **Tue, August 19:** Comparative Advantage, Productivity Change, and Growth  
(Muendler 2014/ch. 9)

**Wed, August 20, time TBA:** *Midterm review section*

**Thu, August 21, 11:00a - 12:30p:** MIDTERM (90 minutes)  
covering lectures 1 through 10

### II. International Capital Markets

11. **Tue, August 26:** Political Economy of Open-market Policies and Agreements  
(Muendler 2014/ch. 7)  
PROBLEM SET 2 OUT
12. **Tue, August 26:** The Principle of Comparative Advantage in Capital Markets  
(Muendler 2014/ch. 14)
13. **Thu, August 28:** International Capital Markets in Practice

- 14. Thu, August 28:** International Capital Flows and Growth  
(Muendler 2014/ch. 15)
- 15. Tue, September 2:** International Capital Flows and Sovereign Risk  
(Muendler 2014/ch. 16)
- 16. Tue, September 2:** Debt Overhang, Debt Buybacks and Debt Forgiveness  
(Muendler 2014/ch. 17)
- Wed, September 3, time TBA:** *Problem set 1 review section*
- 17. Thu, September 4:** Financial Crises and the Great Recession  
PROBLEM SET 2 DUE
- 18. Thu, September 4:** Perspectives on Globalization, Poverty, Inequality and Prosperity
- Fri, September 5, time TBA:** *Final review section*
- Sat, September 6, 11:30a-1:30p:** FINAL EXAM (120 minutes)  
covering lectures 1 through 18

## References

- DOMÍNGUEZ, J. I. (2010): "Explaining Latin America's Lagging Development in the Second Half of the Twentieth Century: Growth Strategies, Inequality, and Economic Crises," in *Falling Behind: Explaining the Development Gap Between Latin America and the United States*, ed. by F. Fukuyama, chap. 4, pp. 72–96. Oxford University, Oxford.
- EASTERLY, W. (2001): *The elusive quest for growth: Economists' adventures and misadventures in the tropics*. MIT Press, Cambridge and London, Chapter 6, pp. 101-20 ("The Loans that Were, The Growth That Wasn't").
- KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2011): *International Economics: Theory & Policy*, Pearson Custom Business Resources. Pearson Learning Solutions, New York, special extract compiled for International Trade Econ 101.
- LÓPEZ-CALVA, L. F., AND N. LUSTIG (2010): "Explaining the Decline in Inequality in Latin America: Technological Change, Educational Upgrading, and Democracy," in *Declining Inequality in Latin America: A Decade of Progress?*, ed. by L. F. López-Calva, and N. Lustig, chap. 1, pp. 1–24. United Nations Development Program, New York.
- MUENDLER, M.-A. (2014): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.